

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-10 H-02 L-03 PRS-01

PA-01 USIA-06 CEA-01 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /102 W

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P 130123Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6459

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 11/11/75

TAGS: EAID, EFIN, MY

SUBJECT: PROPOSED ADB LOAN FOR THIRD SARAWAK ELECTRICITY SUPPLY
PROJECT (MALAYSIA)

SUMMARY: ADB MANAGEMENT PROPOYCS \$22.7 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVERNMENT OF
MALAYSIA TO FINANCE FOREX COST OF (I) CONSTRUCTION OF
POWER STATION INCORPORATING THREE 12 MW DIESEL GENERATING
SETS; (II) INSTALLATION OF TWO 8 MW DIESEL GENERATING
SETS; (III) CONSTRUCTION OF 33 KV TRANSMISSION SYSTEMS.
PROJECT IS LOCATED IN SARAWAK AND IS ESSENTIALLY AN
EXTENSION OF TWO PREVIOUS PROJECTS FINANCED BY BANK IN
1969 AND 1972. USADB RECOMMENDS FAVORABLE
NAC ACTION.

1. ADB DOC. R73-75 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHED ADDRESSEES AUGUST. BOARD
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CONSIDERATION SCHEDULED AUGUST 26.

2. ADB MANAGEMENT PROPOSING \$22.7 MILLION FROM ORDINARY CAPITAL RESOURCES TO GOVT. OF MALAYSIA. PROCEEDS WILL FINANCE FOREX COST OF (A) CONSTRUCTION OF POWER STATION AT KUCHING, WHICH IS CAPITAL OF SARAWAK STATE, INCLUDING SUPPLY OF THREE DIESEL GENERATING SETS OF ABOUT 12 MW EACH; (B) TWO DIESEL GENERATORS OF ABOUT 8 MW EACH AT SIBU, SECOND LARGEST TOWN OF SARAWAK; (C) CONSTRUCTION OF 33 KV TRANSMISSION SYSTEMS AT KUCHING AND SIBU; AND (D) PROVISION OF CONSULTANCY SERVICES FOR CONSTRUCTION SUPERVISION AND ALSO FOR STUDY OF EXECUTING AGENCY'S TARIFF STRUCTURE AND LEVEL. PROPOSED TERMS ARE 20 YEAR AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD, 8-3/4 PERCENT INTEREST. GOVT. OF MALAYSIA TO BE BORROWER AND SARAWAK ELECTRICITY SUPPLY CORPORATION (SESCO) TO BE EXECUTING AGENCY. BORROWER WOULD RELEND PROCEEDS OF LOAN TO STATE OF SARAWAK, AND STATE IN TURN WOULD RELEND PROCEEDS TO SESCO AT SAME TERMS AS ORIGINAL LOAN.

3. ELECTRICITY DEMAND IN SARAWAK HAS BEEN EXPANDING BY ABOUT 14 PERCENT ANNUALLY IN LAST DECADE IN VIEW RAPID INDUSTRIAL AND COMMERCIAL DEVELOPMENT AND INCREASE IN URBAN POPULATION. ADB HAS PROVIDED SUPPORT FOR SISCO'S DEVELOPMENT PROGRAM THROUGH TWO LOANS TO DATE -- \$3.1 MILLION IN DECEMBER 1969 AND \$6.7 MILLION IN SEPTEMBER 1972. UNDER FIRST LOAN, FOUR DIESEL GENERATING UNITS FOR KUCHING, SIBU AND MIRI TOTALING 13.1 MW IN INSTALLED CAPACITY AND ASSOCIATED 33 KV TRANSMISSION LINES WERE INSTALLED IN LATE 1973. SECOND PROJECT, DESIGNED TO MEET DEMAND DURING 1975/1977 IS ESSENTIALLY EXTENSION OF FIRST BANK PROJECT AND INVOLVES INSTALLATION OF FOUR DIESEL GENERATORS AT KUCHING, SIBU AND MIRI WITH TOTAL CAPACITY OF 24.8 MW.

4. UNDER SECOND BANK LOAN, PROVISION WAS ALSO MADE FOR STUDY, WHICH WAS SUBSEQUENTLY MADE BY U.K. CONSULTING FIRM OF PREECE, CARDEW AND RIDER (PCR), TO RE-EXAMINE SESCO'S POWER DEVELOPMENT PROGRAM AND TO DETERMINE MOST APPROPRIATE GENERATING PLANT INSTALLATION LIMITED OFFICIAL USE

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PROGRAM OVER NEXT FIFTEEN YEARS FOR KUCHING. CONSULTANT RECOMMENDED PHASED EXPANSION PROGRAM WITH INITIAL STAGE (UP TO 1980) AND SUBSEQUENT STAGE (UP TO 1988). PROVISION ALSO MADE FOR PREPARATION OF DESIGN FOR NEW POWER STATION AT KUCHING AND RELATED TRANSMISSION LINES AND SUB-STATIONS. SEPARATE STUDY WAS PREPARED BY SESCO STAFF RE EXPANSION OF ELECTRICITY SYSTEM FOR SIBU. BANK PROPOSES TO PROVIDE FINANCING FOR INITIAL

STAGE PROGRAM TO CONSIST OF THREE 12 MW DIESEL GENERATING UNITS AND TRANSMISSION LINES FOR KUCHING (TWO IN 1977 AND ONE IN 1979) AND TWO 8 MW UNITS AND TRANSMISSION SYSTEM AT SIBU. THIS WOULD MEET PROJECTED POWER DEMAND UP TO 1980 AT KUCHING AND UP TO 1979 AT SIBU.

5. SESCO, THE EXECUTING AGENCY, IS STATUTORY CORPORATION ESTABLISHED UNDER SARAWAK ELECTRICITY SUPPLY CORPORATION ORDINANCE 1962 OF STATE OF SARAWAK. IT IS WHOLLY OWNED BY STATE GOVT. AND COMES UNDER CONTROL OF MINISTRY OF COMMUNICATIONS AND WORKS. BANK CONSIDERS THAT SESCO IS WELL-ORGANIZED AND WELL-MANAGED AND HAS IMPLEMENTED TWO PREVIOUS BANK PROJECTS SATISFACTORILY. HOWEVER, WHILE SESCO APPEARS TO HAVE TECHNICALLY COMPLIED WITH FINANCIAL COVENANTS UNDER SECOND BANK LOAN REGARDING DIVIDENDS, LONG-RUN EQUITY POSITION AND ASSET REVALUATION POLICY, ITS COMPLIANCE WITH THE SPIRIT OF THE COVENANTS LEFT SOMETHING TO BE DESIRED. (SEE PARAS. 52-55 OF LOAN DOCUMENT.) MORE SPECIFIC ASSURANCES HAVE BEEN RECEIVED UNDER THE CURRENT PROPOSAL TO EFFECT THAT (A) ANNUAL DIVIDEND OF MORE THAN ONE PERCENT PER YEAR WOULD NOT BE DECLINED UNLESS SESCO'S SELF-FINANCING AND DEBT/EQUITY RATIOS ARE SATISFACTORY AND AFTER FULL CONSULTATION AND PRIOR CONCURRENCE OF BANK; (B) FUEL ADJUSTMENT CLAUSE ALREADY APPROVED BY GOVT. OF SARAWAK WOULD BE MADE EFFECTIVE WITHIN THREE MONTHS AFTER EXPECTED REVISION OF FUEL OIL PRICE IN 1976 SO RESERVE POSITIONS AND DEBT-EQUITY POSITION OF UTILITY WILL BE SATISFACTORY; AND (C) QUESTION OF REVALUATION OF ASSETS WOULD BE THOROUGHLY EXAMINED BY SESCO AND STATE GOVT. WITH SERVICES OF EXPERT, TO BE FOLLOWED BY DISCUSSION WITH BANK IN 1976 AND APPROPRIATE ACTION. LIMITED OFFICIAL USE

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INFO OCT-01 EA-07 ISO-00 NEA-10 IO-10 H-02 L-03 PRS-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6460

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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6. PROPOSED PROJECT CONSISTS OF (A) CONSTRUCTION OF SUNGEI BIAWAK POWER STATION AT KUCHING INCORPORATING THREE DIESEL GENERATING SETS OF APPROXIMATELY 12 MW EACH TO BE COMMISSIONED IN LATE 1977; (B) INSTALLATION OF TWO DIESEL GENERATORS OF APPROXIMATELY 8 MW EACH AT SUNGEI MERAH POWER STATION AT SIBU ONE TO BE OPERATIONAL IN EARLY 1977 AND OTHER IN LATE 1977; (C) CONSTRUCTION AND EXPANSION OF ASSOCIATED 33 KV SUBSTATIONS AT KUCHING AND SIBU TOTALING ABOUT 170 MVA IN INSTALLED CAPACITY; (D) CONSTRUCTION OF ASSOCIATED 33 KV TRANSMISSION LINES AT KUCHING AND SIBE WITH TOTAL CIRCUIT LENGTH OF ABOUT 60 MILES; (E) CONSULTANT SERVICES FOR EVALUATION OF TENDERS, CONSTRUCTION SUPERVISION AND COMMISSIONING (EXCEPT FOR (B) ABOVE, WHICH WILL BE CARRIED OUT BY SESCO'S ENGINEERING STAFF); AND (F) CONSULTANT SERVICES FOR STUDY OF SESCO'S TARIFF STRUCTURE AND LEVEL.

7. TOTAL PROJECT COST IS ESTIMATED AT \$31.5 MILLION EQUIVALENT. BANK PROPOSES TO FINANCE \$22.7 MILLION FOREX COST, WHILE SESCO IS EXPECTED TO MEET \$8.8 MILLION LIMITED OFFICIAL USE

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LOCAL COST PLUS INTEREST DURING CONSTRUCTION FROM ITS OWN RESOURCES.

8. SESCO WILL BE RESPONSIBLE FOR PROCUREMENT AND WILL NO LONGER USE CROWN AGENTS AS PURCHASING AGENT. CONTRACTS FOR LESS THAN \$100,000 FOR EQUIPMENT AND MATERIALS AND \$200,000 FOR CIVIL WORKS WILL BE AWARDED ON BASIS OF TENDERS OR QUOTATIONS FROM REASONABLE NUMBER OF SUPPLIERS FROM MORE THAN ONE ELIGIBLE COUNTRY. CONTRACTS OVER

THESE AMOUNTS ARE TO BE AWARDED, EXCEPT AS BANK MAY OTHERWISE AGREE, ON BASIS INTERNATIONAL COMPETITIVE BIDDING. (CIVIL WORKS FOR SUBSTATIONS ARE TO BE LOCALLY FINANCED FOR WHICH ABOVE DOES NOT APPLY.) SHOULD NOTE THAT MAJOR EQUIPMENT CONTRACTS SUCH AS DIESEL GENERATING FACILITIES (ONE CONTRACT EACH FOR KUCHING AND SIBU), SUBSTATION EQUIPMENT AND TRANSMISSION LINES WILL INCLUDE SUPPLY, DELIVERY, ERECTION AND COMMISSIONING. IN THIS REGARD, USADB IS ASKING BANK TO REQUEST EXECUTING AGENCY TO AUTHORIZE JOINT BIDS FROM EQUIPMENT SUPPLIER AND CONSTRUCTION CONTRACTOR IN ORDER ACCOMMODATE U.S. FIRMS FOR SUPPLY AND ERECT PROJECTS.

9. BECAUSE OF PCR'S PREVIOUS ASSOCIATION WITH THIS PROJECT UNDER SECOND BANK LOAN FOR PREPARATION OF NECESSARY STUDIES RE FUTURE EXPANSION OF SESCO'S POWER SYSTEM (PARA 4. ABOVE), INCLUDING DESIGN WORK FOR NEW POWER STATION AT SUNGEI BIAWAK, KUCHING AND RELATED 33 KV TRANSMISSION LINES AND SUBSTATIONS, BANK PROPOSES TO APPROVE SESCO REQUEST TO RETAIN PCR FOR PROJECT PREPARATION. SESCO AND STATE GOVT. ALSO PROPOSE THAT REVIEW OF SESCO'S TARIFF STRUCTURE AND EXISTING TARIFF LEVEL BE UNDERTAKEN BY FINANCIAL CONSULTANTS, WHICH WOULD TAKE INTO ACCOUNT RECENT SESCO PROPOSAL TO INCREASE AVERAGE TARIFF BY 15 PERCENT AND THAT RECOMMENDATIONS WOULD BE DISCUSSED WITH BANK BEFORE END 1976. THESE LATTER CONSULTANTS WOULD BE RECRUITED IN ACCORDANCE WITH BANK'S USES OF CONSULTANTS.

10. BANK CONSIDERS PROPOSED PROJECT TO BE WELL-CONCEIVED, TECHNICALLY FEASIBLE AND FINANCIALLY AND ECONOMICALLY LIMITED OFFICIAL USE

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VIALE. PROJECT ASSIGNED HIGH PRIORITY BY BOTH FEDERAL AND STATE GOVTS. EXPANSION OF SESCO'S SYSTEMS IN KUCHING AND SIBU IS URGENTLY REQUIRED FOR FURTHER INDUSTRIAL, TRADE AND COMMERCIAL DEVELOPMENT. INCREMENTAL FINANCIAL INTERNAL RATE OF RETURN ESTIMATED AT ABOUT 9 PERCENT AND ECONOMIC RATE OF RETURN AT ABOUT 11 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST KUALA LUMPUR'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
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Draft Date: 13 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
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Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
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